



A Report
to the
Board of
Supervisors

*Maricopa County
Internal Audit
Department*

Ross L. Tate
County Auditor

Compliance Review

Single Audit

*Grant-Funded Organizations:
Compliance with Federal
Audit Guidelines*

July ■ 2006

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The **County Auditor** is appointed by the Board of Supervisors. The mission of the Internal Audit Department is to provide objective, accurate, and meaningful information about County operations so the Board of Supervisors can make informed decisions to better serve County citizens.

***The mission of Maricopa County is to provide
regional leadership and fiscally responsible,
necessary public services so that residents can
enjoy living in a healthy and safe community.***

Audit Team Members

Richard Chard, Deputy County Auditor

Trisa Cole, Staff Auditor

Copies of the Internal Auditor's reports are available by request.
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Many of our reports can be found in electronic format at:
www.maricopa.gov/internal_audit



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July 31, 2006

Don Stapley, Chairman, Board of Supervisors
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We have completed our compliance reviews for federal grant funds distributed through Maricopa County to various subrecipients. As required by federal guidelines, we surveyed 52 organizations that received \$16.2 million during fiscal years 2004 and 2005, and reviewed the Single Audit reports of those entities required to submit them. This review was performed in accordance with the Board of Supervisors' approved annual audit plan.

We noted that 9 of the audit reports contained 22 findings related to federal grant funds. The 22 findings included 5 immaterial instances of noncompliance with regulations, contracts, or grant agreements; 15 reportable conditions; and 5 material weaknesses in internal controls.

This report includes:

- Background information on the Single Audit Act
- Internal Audit's role in the Single Audit reporting process
- Single Audit report data and a listing of the County's FY 2005 subrecipients
- A summary of audit issues noted in the audit reports

If you have any questions, please contact Richard Chard at 506-7539.

Sincerely,

A handwritten signature in cursive script that reads 'Ross L. Tate'.

Ross L. Tate
County Auditor

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Executive Summary

What is a Single Audit?

A Single Audit is an independent audit of non-federal entities that expend \$300,000 or more in federal grant funds in years ending on or before December 31, 2003 or \$500,000 for years ending thereafter. These audits are performed as required by the Federal Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Why does Internal Audit Review Single Audit Reports?

Non-federal entities that receive federal grant funds and distribute any portion of those funds to subrecipients (other entities that use the funds in their own programs) are responsible for ensuring their subrecipients comply with the Single Audit requirements.

How Much Federal Money Do We Pass Through?

The County expended \$113.6 million in federal grant funds and passed \$23.3 million through to subrecipients in FY 2003-2004. In FY 2004-2005 \$110.6 million federal grant funds were expended and \$23.9 million was passed through to subrecipients.

Do Any of the Single Audit Findings Affect the County?

The subrecipients' independent auditors report findings related to the general purpose financial statements and the entities' major programs. Findings related to the general-purpose financial statements could indirectly affect federal funds passed through the County. Findings related to major programs will only affect the County if the County funds those programs. Summary tables of findings that could impact federal funds passed through the County are shown on Appendix C.

What Action Do We Take on Findings?

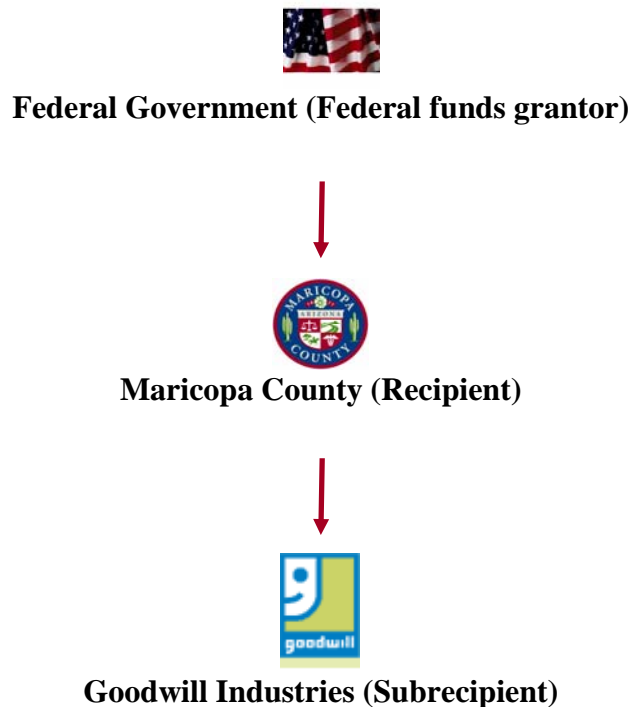
Internal audit reports findings to agencies that pass through grant funds. Individuals who manage the grants make final determination of whether the findings impact the agency's pass-through funds. If they determine the findings do affect the funds, they review the subrecipients corrective action plan and issue a management decision to the subrecipient that states whether they accept the plan or not, and what other corrective action may be required. An agency's grant manager then follows up to ensure that appropriate corrective action is taken.

Introduction

Background

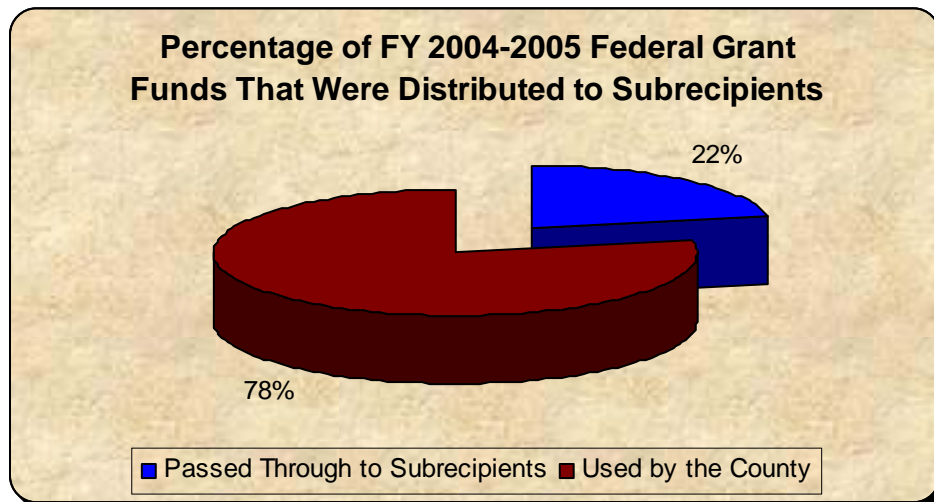
In 1984, the United States Congress passed the Single Audit Act to consolidate a previously fragmented and inefficient approach to auditing federal grants. The Federal Office of Management and Budget issued Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations* to implement the Single Audit Act. Non-federal entities who expended \$300,000 or more of federal assistance for fiscal years ended on or before December 31, 2003, or \$500,000 or more for fiscal years ended thereafter, are required to undergo a comprehensive financial and compliance audit each year (a Single Audit).

In addition, Circular A-133 discusses federal grant subrecipients and pass-through entities. It defines a *subrecipient* as “an organization that receives federal financial assistance to carry out a program” from a primary recipient or other subrecipient. A *pass-through entity* is a primary recipient or subrecipient that passes federal grant funds through to subrecipients. The federal fund distribution process is illustrated below:



The County expended \$110.6 million of federal grant funds in FY 2005 and passed through \$23.9 (22%) to subrecipient organizations cities, charitable organizations, and service foundations within Maricopa County. A listing of the County’s 2005 subrecipients is shown in Appendices A and B.

Federal Grant Funds Used and Distributed by the County



Auditor General Findings and Internal Audit's Role

The Arizona Auditor General's June 30, 1988 *Report on Supplemental Data, Internal Controls, and Compliance for Single Audit*, found Maricopa County to be in noncompliance with the Single Audit Act. The County did not have countywide procedures to ensure that subrecipients were audited. The Auditor General directed the County to ensure that subrecipients undergo audits, follow up on reported audit findings, and ensure corrective action is taken.

As a result, the Board of Supervisors directed Internal Audit to establish and maintain a countywide subrecipient audit management program. Each year Internal Audit:

- Identifies County subrecipients
- Contacts them to determine if they expended enough federal grant funds to meet the Single Audit threshold
- Requests and reviews the Single Audit reporting packages
- Communicates the findings to County agencies that passed through the funds so they may ensure that subrecipients take appropriate corrective action (when necessary)

In recent years, Community Development and the Sheriff's Office have obtained Board approval to assume responsibility for ensuring their subrecipients comply with the Single Audit Act. Therefore, we did not review Community Development and the Sheriff's Office subrecipients for FY 2004-2005, which accounted for \$7.6 million and \$549 thousand, respectively, in pass-through grants. In addition, Maricopa Medical Center assumed responsibility for monitoring its

subrecipient's compliance from FY 2005 forward when it transitioned to the Special Healthcare District in January 2005. As a result, we did not review Maricopa Medical Center subrecipients for FY 2005, which accounted for \$684 thousand in pass-through grant funds.

Specific Requirements

Primary recipients and subrecipients who exceed the "grant funds expended" threshold of \$500,000 for years ended 2004 and 2005 must hire an independent auditor, either the State Auditor General or an independent Certified Public Accountant (CPA), each year. The auditor performs uniform audit procedures established in 1996 by the Single Audit Amendment and produces a Single Audit Reporting Package, which includes:

- Independent Auditor's Report
- Audited Financial Statements
- Schedule of Expenditures of Federal Awards
- Report on Compliance and Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
- Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133
- Schedule of Findings and Questioned Costs
- Summary Schedule of Prior Audit Findings
- Corrective Action Plan (if appropriate)

If subrecipients' *Schedules of Findings and Questioned Costs* disclose any finding directly related to the federal award the pass-through entity provided, the subrecipient must submit a copy of the audit reporting package to the pass-through entity. Subrecipients must also submit copies of their reporting packages to pass-through entities upon request. Conversely, when a report identifies findings related to the federal award provided, the pass-through entity must issue a management decision on the findings within six months of receipt of the reporting package, and ensure that the subrecipient takes appropriate corrective action.

Finding Classifications

The independent auditors report instances of noncompliance and weaknesses in internal control in the following documents:

- *The Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Basic Financial Statements Performed in Accordance with Government Auditing Standards*
- *The Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program*
- *Internal Control Over Compliance in Accordance with OMB Circular A-133*

Each report contains a section on compliance and a section on internal control over compliance. The classifications of the findings reported by the auditors are described in the following table:

<i>Immaterial Instances of Noncompliance</i>	<i>Noncompliance</i>	<i>Reportable Conditions</i>	<i>Material Weakness</i>
Noncompliance that is not required to be reported. These findings represent areas for potential improvement that are typically communicated to the audited entity in a separate management letter and not included in the audit reports.	Noncompliance with certain provisions of laws, regulations, contracts, and grants, which could have a direct and material effect on financial statement amounts or major federal programs.	Reportable conditions are significant deficiencies in the design or operation of the internal control over financial reporting that could adversely affect the organization's ability to record, process, summarize, and report financial data.	A material weakness is a reportable condition significant enough that a material misstatement in the financial statements or material noncompliance with requirements of a major federal program may occur and not be detected by employees in the normal course of business.

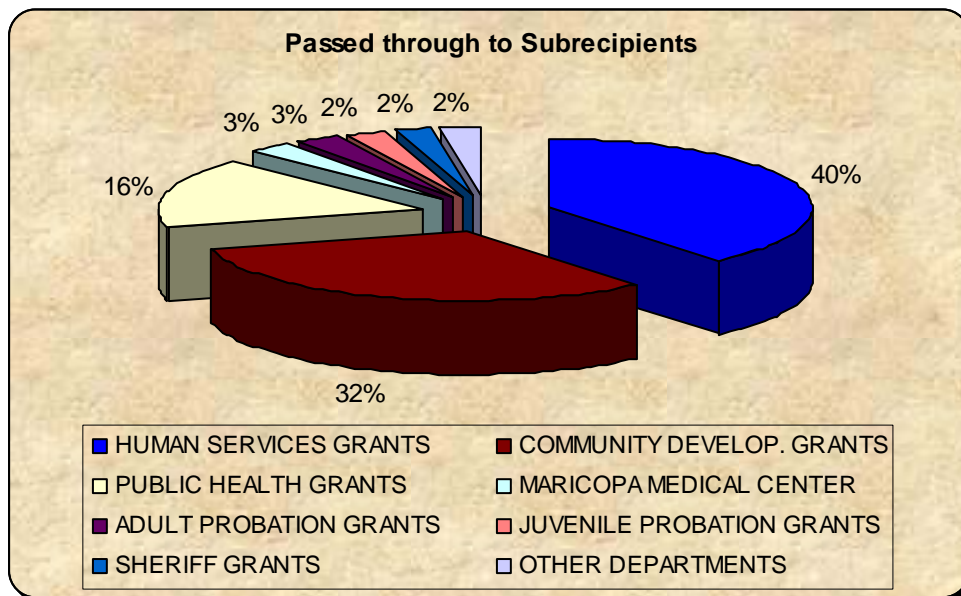
Details of these findings and any associated costs are presented in the *Schedule of Findings and Questioned Costs*.

County Pass-Through Grantors

Finance reported ten County organizations passing through \$23.9 million in federal grant monies to subrecipients in FY 2005:

- Adult Probation
- Community Development (not reviewed by IA)
- Emergency Management
- Environmental Services
- Air Quality
- Human Services
- Juvenile Probation
- Maricopa County Sheriff's Office (not reviewed by IA)
- Maricopa Special Health Care District (not reviewed by IA)
- Public Health

The chart below illustrates total grant dollars passed through each agency for FY 2005. Agency subrecipients, report status and dollar amounts passed through are listed in Appendices A and B.



Independent Auditors' Findings

Summary for FY 2004 – 2005

The County agencies whose subrecipient Single Audit reports were reviewed by Internal Audit passed through federal grant funds to 43 subrecipients and 9 from FY 2004 which were not reviewed during the prior year. We determined that 18 subrecipients were not required to have Single Audits done in this period and six were not submitted. We reviewed the remaining 29 submitted Single Audit reports. The reports reviewed represented \$14.1 million in federal funding that passed through Maricopa County.

Nine audit reports identified 2 immaterial instances of noncompliance, 15 reportable conditions, and 5 material weaknesses that OMB Circular A-133 requires to be reported. We reported these findings to the appropriate County agencies so they could determine whether the findings impacted any of the grant funds they passed through. Although the grantor agencies must make the final determination, most of the findings do not appear to affect County grant funds. Appendix C summarizes significant audit findings of reviewed subrecipients.

Our review of the reports for compliance with the requirements of OMB A-133 also noted problems with the quality of 18 of the reporting packages, such as failure to include federal grant funds passed through the County in their *Schedule of Expenditure of Federal Awards* (SEFA). These findings are summarized in the following table:

FYE 6/30/05 Subrecipient	Amount Passed Through as Reported by Agency	County Funds Not Included in SEFA	SEFA Reports Significantly Different County Funds Amount	Other Miscellaneous Issues*
Area Agency on Aging	1,169,819		✓	
Arizona Call-A-Teen Resources	661,950		✓	
Body Positive	1,115,682			✓
Catholic Social Service	6,382,169		✓	✓
Central Arizona Shelter	64,113		✓	
Chicanos Por La Causa, Inc.	574,975	✓		
City of Avondale	108,590		✓	✓
City of El Mirage	111,245		✓	
City of Glendale	340,918		✓	
City of Mesa	6,064		✓	✓
City of Phoenix	570,178		✓	✓
City of Surprise	1,391	✓		✓

Subrecipient	Amount Passed Through as Reported by Agency	County Funds Not Included in SEFA	SEFA Reports Significantly Different County Funds Amount	Other Miscellaneous Issues*
City of Tolleson	84,132		✓	
Community Services of Arizona,	234,771		✓	
FSAL Programs, Inc. FY04	428,713		✓	
FSAL Programs, Inc. FY05	737,189		✓	
Phoenix Shanti Group	122,943			✓
St. Joseph's Hospital	76,552	✓		✓
Regional Public Transportation	784,313		✓	
Town of Gilbert	3,722	✓		
Town of Guadalupe	78,626		✓	
Total:	13,658,055			

If a pass-through agency determines that audit findings impact the grant funds they provided, they should review the subrecipient's corrective action plan and issue a management decision to the subrecipient that states whether they accept the plan and what other corrective action they require, if any. They should also follow up to ensure that the subrecipient takes appropriate corrective action.

Circular A-133 does not require any specific action of pass-through entities when subrecipients' audit reporting packages do not meet the established criteria. However, A-133 does require pass-through entities to communicate certain information about the grant and the requirements imposed on them by federal law, regulations, grant and contract agreements. Therefore, we reported this information to the agencies so they can work with their subrecipients to resolve these issues.

Appendix A

Maricopa County FY 2004-2005 Subrecipients

	FY05 Subrecipients	Amount Passed through	Report Status	Adult Probation	Emergency Management	Environmental Services	Human Services	Juvenile Probation	MIHS	Public Health
1	Aids Project of Arizona	116,324	(1)							✓
2	Area Agency on Aging	1,169,819	✓							✓
3	Arizona Call-A-Teen Resources	661,950	✓				✓			
4	Arizona Women's Education & Emp	177,917	(2)				✓			
5	ASU	128,519	(5)							✓
6	AZ Opportunities Industrialization Center, Inc.	16,987	(5)							✓
7	Body Positive	1,115,682	✓							✓
8	Catholic Social Service	6,382,169	✓				✓			✓
9	Central Arizona Shelter Services	64,113	✓							✓
10	Chicanos Por La Causa, Inc.	574,975	✓	✓						✓
11	City of Avondale	108,590	✓				✓			
12	City of Chandler	8,665	✓		✓					
13	City of El Mirage	111,245	✓				✓			
14	City of Glendale	340,918	✓		✓		✓	✓		
15	City of Mesa	6,064	✓		✓					
16	City of Phoenix	570,178	✓		✓			✓		
17	City of Surprise	1,391	✓							✓
18	City of Tolleson	84,132	✓				✓			
19	Clinica Adelenata	20,992	(4)							✓
20	Community Legal Services	40,986	(4)							✓
21	Community Services of Arizona, Inc.	234,771	✓				✓			
22	Concepts for Change, Inc	201,737	(2)	✓						
23	Family Service Agency	30,667	(2)	✓						
24	FSAL Programs, Inc.	737,189	✓				✓			
25	Good Samaritan Hospital	8,880	(4)							✓

Maricopa County FY 2004-2005 Subrecipients, (Continued)

	FY05 Subrecipients	Amount Passed through	Report Status	Adult Probation	Emergency Management	Environmental Services	Human Services	Juvenile Probation	MIHS	Public Health
26	Goodwill Industries of Arizona	472,150	(4)				✓			
27	Jewish Family & Children Services	26,320	(2)							✓
28	Mt. Park Medical Center	35,262	(4)							✓
29	New Life Center	26,264	✓				✓			
30	Northwest Organization for Voluntary Alternatives, Inc. (DBA Nova)	82,899	(2)	✓						
31	Phoenix Children's Hospital	90,974	(4)							✓
32	Phoenix Indian Medical Center	69,320	(3)							✓
33	Phoenix Shanti Group	122,943	✓							✓
34	Pinal County	8,992	(5)							✓
35	Regional Public Transportation Authority	784,313	✓			✓				
36	Save the Family Foundation	26,264	✓				✓			
37	St. Joseph's Hospital	76,552	✓							✓
38	Sun City West - Fire Department	273	(2)		✓					
39	Tempe Community Action Agency	247,931	(2)				✓			
40	Town of Buckeye	94,105	(5)				✓			
41	Town of Gila Bend	75,214	(5)				✓			
42	Town of Gilbert	3,722	✓		✓					
43	Town of Guadalupe	78,626	✓				✓			
	Total:	15,236,984								

- (1) Out of business – did not submit a report
 (2) Did not meet the \$500,000 threshold
 (3) Federal entity – not required to have a Single Audit
 (4) Fiscal year end later than 6/30/05 – not reviewed in this period
 (5) Report due and not submitted
 ✓ submitted and reviewed in this period

Appendix B

Maricopa County FY 2003-2004 Subrecipients Not reviewed in prior audit period

	FY04 Subrecipients	Amount Passed through	Report Status	Adult Probation	Emergency Management	Environmental Services	Human Services	Juvenile Probation	MIHS	Public Health
1	Banner Health	78,217	✓							✓
2	City of Goodyear	2,500	(2)		✓					
3	Clinic Adelante	13,184	✓							✓
4	Community Legal Services (HIV/AIDS Law Project)	58,443	(2)							✓
5	Foundation for Senior Living (FSAL)	428,713	✓				✓			
6	Mountain Park Health Center	28,860	✓							✓
7	Phoenix Children's Hospital	3,922	✓							✓
8	Phoenix Shanti Group	288,880	✓							✓
9	Town of Gila Bend	50,187	(5)				✓			
	Total:	952,906								

- (1) Out of business – did not submit a report
 (2) Did not meet the \$500,000 threshold
 (3) Federal entity – not required to have a Single Audit
 (4) Fiscal year end later than 6/30/05 – not reviewed in this period
 (5) Report due however not submitted
 ✓ submitted and reviewed in this period

FY05 Single Audit reports not submitted in required period:

- ASU
- AZ Opportunities Industrialization Center, Inc.
- Pinal County
- Town of Buckeye
- Town of Gila Bend

FY04 Single Audit reports not submitted in required period:

- Town of Gila Bend

Appendix C

Subrecipient Findings for FY 2004-2005

Subrecipient	Finding Type	Description
City of Goodyear	Material Weakness	Detailed subsidiary records are not reconciled to the general ledger
	Material Weakness	Access to check signing stamps is not properly restricted
	Material Weakness	Capital asset records are not adequately maintained or integrated into the accounting system
	Material Weakness	Inadequate evidence of journal entry review
	Material Weakness	Inadequate segregation of accounting functions
	Reportable Condition	Grant financial reports are not reconciled to supporting accounting records before filing
	Reportable Condition	Grant financial reports are not prepared on a timely basis
	Reportable Condition	Federal funds are not deposited into separate bank accounts or accounted for in separate fund control accounts
City of Phoenix	Reportable Condition	\$53,365 was erroneously billed twice. The adjustment did not occur until Oct 2005. Reports filed with the federal agency overstated expenditures by \$53,365 and the city failed to liquidate reimbursement within three days of receipt of funds. CFDA #14.872
	Reportable Condition	City receives reimbursement from department of justice which was \$109,838 higher than actual expenditures. Tracking spreadsheet is not reconciled to general ledger. CFDA #16.710
	Reportable Condition	One of 25 selected required HUD 50058 family reports was not submitted. CFDA #14.850

Subrecipient Findings for FY 2004-2005 (continued)

Subrecipient	Finding Type	Description
(continued) City of Phoenix	Reportable Condition	Two of three Single Resident Occupancy programs required (HUD 40118 Annual progress reports) were not submitted. CFDA #14.856
Body Positive	Reportable Condition	Over billed the county at a gross rate for vitamins and herbs; questioned costs totaling \$22,563. Anticipated correction date April 2006. CFDA # 93.914
New Life Center	Immaterial Instances of Noncompliance	Total pledge receivable subsidiary ledger did not reconcile to the general ledger
Community Services of Arizona	Reportable Condition	Did not verify homeowners were complying with the requirements of the contracts. Major programs CFDA # 14.239 & 14.218
	Reportable Condition	Retains a checking account in excess of federal deposit insurance coverage.
	Reportable Condition	Lacks a formalized documenting process regarding investments in joint ventures for affordable housing projects
	Reportable Condition	Lacks an internal audit program that includes surprise audits of administration and program sites.
City of Glendale	Reportable Condition	15 of 30 quarterly reports reviewed did not submit the reports to the applicable oversight agency timely basis. CFDA # 97.004
Town of Guadalupe	Immaterial Instances of Noncompliance	Payroll tax withholding accounts in the general ledger were not reconciled monthly to amounts reported on the payroll tax returns.
Clinica Adelante	Reportable Condition	Lack compliance with procedures for determining and documenting patient eligibility for the sliding fee scale. CFDA # 93.224
ST Joseph Hospital and Medical Center of (Catholic Healthcare West)	Reportable Condition	Federal awards were not reported to facility managers and not included in the Schedule of Expenditures of Federal Awards. CFDA # 93.853, 93.527575, 93.003

Summary of Report Quality

- 19 subrecipients with the same fiscal year end as the county reported receiving different amounts than the agency reported passing through.
- 2 reporting packages did not include the *Summary Schedule of Prior Audit Findings* required by OMB Circular A-133
- 2 exceptions did not contain questioned costs with the schedule of findings and questioned costs
- 1 Audit did not relate the noncompliance to the number of cases examined
- 3 agencies had federal programs that did not assign a catalog number and are not separately listed by program, under the caption: "Other Federal Assistance"
- 3 agencies single audit's were not listed in the Single Audit Database(Phoenix Shanti Group, City of Surprise and City of Avondale)